

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2644 - SB 2882

March 12, 2022

SUMMARY OF BILL: Authorizes a county, municipality, or the state to invest in cryptocurrency, blockchains, and non-fungible tokens.

FISCAL IMPACT:

**Increase State Expenditures – \$204,900/FY22-23
\$188,900/FY23-24 and Subsequent Years**

Other Fiscal Impact – The funding for any state expenditures would be derived from the earnings fee charged to participants in the specific funds managed by the Department of Treasury. It is unknown which funds will elect to invest in cryptocurrency, blockchains, and non-fungible tokens; therefore, any increase to state revenue cannot reasonably be determined. Any permissive impact to local government revenue or expenditures due to investment in cryptocurrency, blockchains, and non-fungible tokens cannot be reasonably determined.

Assumptions:

- Pursuant to Tenn. Code Ann. §§ 5-8-301(b), 6-56-106(a), and 9-4-602(a)(1)(B)(i), counties, municipalities, and the state are authorized to invest funds into a variety of investment instruments.
- The proposed legislation would authorize such governmental entities to invest in cryptocurrency, blockchains, and non-fungible tokens.
- Per the language of the legislation:
 - "Blockchain" means a decentralized data system in which the data stored is mathematically verifiable, that uses distributed ledger technology or databases to store specialized data in the permanent order of transactions recorded;
 - "Cryptocurrency" means a virtual currency that utilizes cryptography to validate and secure transactions that are digitally recorded through distributed ledger technology; and
 - "Non-fungible token" means a non-fungible cryptographic asset on a blockchain, which possesses unique identifiers or other metadata that distinguishes the asset from another token or asset in a manner that makes the asset irreplaceable and non-exchangeable for a similar token or asset.
- As counties and municipalities are already authorized to invest idle funds in certain investment instruments, authorizing such entities to invest in cryptocurrency, blockchains, and non-fungible tokens is not estimated to result in any permissive impact

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to local expenditures. Any impact to local revenue as a result of such authorization cannot reasonably be determined.

- Pursuant to Tenn. Code Ann. § 9-4-602(a)(1)(A), it is the policy of the state of Tennessee that all funds in the State Treasury shall be invested by the State Treasurer (Treasurer) to the extent practicable.
- Based on information provided by the Department of Treasury (Treasury), passage of the proposed legislation will impact the Treasury through its administration of several funds that include state funds or are invested with state funds.
- The Treasury will require one additional position (1 Investment Portfolio Manager) beginning in FY22-23.
- There will be a one-time increase in state expenditures in FY22-23 of \$161,581 (\$129,624 salary + \$28,457 benefits + \$3,500 for equipment and supplies).
- There will be a recurring increase in state expenditures of \$158,081 (\$129,624 salary + \$28,457 benefits) in FY23-24 and subsequent years.
- Authorization to invest state funds in cryptocurrency, bitcoin, and non-fungible tokens will require the Treasury to establish a relationship with a vendor for the custody of assets and a trading platform, and will incur the following costs:
 - Trading fees:
 - Trading fees are approximately 0.03 percent, or 0.0003, per trade.
 - Set-up costs:
 - There would be a one-time account set-up cost.
 - Custody Fee:
 - Custody fees are approximately 0.5 percent, or 0.005, of the assets held by the vendor.
 - The custody fee will vary based upon the investment amount maintained.
- The funding for such costs would be derived from the earnings fee charged to participants in the specific funds managed by the Treasury where the investment policies are modified.
- The Comptroller of the Treasury's (COT) Department of Audit conducts audits and investigations of fraud, waste, and abuse within state and local publicly funded entities.
- Upon passage of the proposed legislation, the COT will be required to perform cryptocurrency-related audits.
- Since cryptocurrency, blockchains, and non-fungible tokens have only recently been created as forms of exchange, it can reasonably be assumed that few governmental entities will opt to utilize them as investment instruments.
- Based on information provided by the COT:
 - The Department of Audit consists of 125 staff members.
 - Due to the expected low rate of governmental entities utilizing the new investment options, it can reasonably be assumed that twenty five percent or, 31 staff members, (25% x 125) will require annual training to become proficient in cryptocurrency related audits and investigations.
 - Based on current initial training costs of companies providing training in cryptocurrency investigations, it is estimated that initial training will result in an increase to state expenditures of \$43,338 (\$1,398 x 31 staff) in FY22-23.

- Based on current annual conference costs, it is estimated that annual training will result in a recurring increase to state expenditures of \$30,845 (\$995 x 31 staff), beginning FY23-24.
- There will be a total increase in state expenditures of \$204,919 (\$161,581 + \$43,338) in FY22-23.
- There will be a recurring increase in state expenditures of \$188,926 (\$158,081 + \$30,845) in FY23-24 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

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